

Sanderson Group

Update
4th March 2014

AGM Supports Strong Growth Prospects

Reporting at its AGM, Sanderson Group has announced that it has made a good start to FY14 and that it remains confident of making further significant progress in the year. The announcement, we feel, supports and underpins the group's commitment to maintain its progressive dividend policy, and provides us with further confidence in our forecasts. With a high level of recurring revenue (c.60%), strong and growing range of products and services, growing presence in the catalogue, online sales and ecommerce markets and healthy balance sheet, we retain our "buy" stance, with a target price of 90p.

AGM Statement

Order intake and the order book, measured on a 'like-for-like' basis, excluding acquisitions, are ahead of the comparative period, underpinned by a continued increase in the level of business from new customers. One iota, which was acquired the start of FY14, has made a "very positive" start. The performance of the food and drink processing business has more than offset the continuing weakness in the general manufacturing business. Online sales, ecommerce and catalogues sectors continuing to experience double digit growth rates, fuelled by the adoption of mobile products across all markets and offsetting a gradual decline in the traditional mail order market. Catan Marketing, trading under the name of Prima, which was acquired in August 2013, has made a steady start. It is currently being consolidated into the firm's main Coventry centre, which we expect will lead to improved operational efficiency and a lower cost base from the start of FY15. One new customer recently reported a threefold 'ROI' within the first year.

Financial forecasts

For FY14, we continue to forecast revenue of £16.10m. With a larger amount of higher margin products expected to be sold, we are forecasting gross profit of £13.85m. We expect the group to continue its investment in product innovation, as well as sales & marketing, and are forecasting adjusted PBT of £2.67m. We keep our DPS forecast unchanged at 1.60p. For FY15, we are forecasting gross profit of £14.88m on revenue of £17.30m. We are forecasting an adjusted PBT figure of £3.20m, and anticipate DPS of 1.70p, but note that this could be higher given the strong cash generation.

Valuation

Given the strong progress made, we consider a rating of 15x forward earnings + net cash as justifiable for setting our target price of 90p. The prospective yield of 2.64% is also attractive. The principal risk is a general decline in business confidence.

Table: Financial overview

Year to 30 th Sep.	2012A	2013A	2014E	2015E
Revenue (£'000)	13,374	13,828	16,100	17,300
PBT* (£'000)	1,613	2,186	2,670	3,195
EPS* (p)	3.80	4.42	4.72	5.20
Dividend (p)	1.20	1.50	1.60	1.70
Yield (%)	1.86%	2.32%	2.48%	2.64%

Source: GECR and company.

Notes: *Adjusted

Buy

Target price

90p

Key data

Share price	64.50p
52 week high/low	73.75p/45.00p
Primary exchange	AIM
EPIC	SND
Shares in issue	51.82 m
Market Cap	£33.42 m
Sector	Software & Computer Services

Share price chart



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